3/3/88 C0175-1 A

American Banker

The Daily Financial Services Nev

155389000015 2/ 5/07 C11
STATISTICAL REFERENCE INDEX
JOHN P KENNEDY
4520 EAST WEST HIGHWAY
SITE 800
BETHESDA MD 20814

VOL. CLIII NO. 43 Thursday, March 3, 1988 [illegible]rd Year

Today

Thrift trade groups are bracing for another collapse of the FSLIC and the congressional fallout that would follow. A plan from the National Council of Savings Institutions calls for a taxpayer bailout plus a merger of the FSLIC and the FDIC. ____ 2

The State Department is preparing to notify U.S. banks in which the Panamanian government has deposits not to engage in any transactions with the new regime that has seized power, said a lawyer for a Panamanian opposition group. ____ 2

A new securities processing technology reads the paper fiber arrangements of documents, each of which is as unique as a fingerprint or a snowflake. The system is being touted as a far better way for banks and brokers to identify counterfeit and stolen certificates. ____ 2

Deposits at U.S. commercial banks grew at an annual rate of 12% in the fourth quarter — stimulated by the October stock market crash. Bank deposit growth for the year, however, was a dismal 2.2%, the FDIC reported. ____ 3

R. Crosby Kemper, the outspoken chairman of United Missouri Bancshares, said he remains interested in a merger with cross-state rival Centerre Bancorp. The St. Louis company would "fit like a glove" with United Missouri of Kansas City, he told analysts in a rare meeting. ____ 12

Former Chemical Bank executive Alan H. Fishman has joined Neuberger & Berman, an investment bank, to set up a fund that buys loans made to companies near bankruptcy. ____ 14

Executive Changes ____ 14
Flashbacks ____ 4
In the News ____ 3

CONSUMER FINANCIAL SERVICES

The IRA market is in a slump, and financial marketers are responding. Some institutions are emphasizing rollover accounts; others are offering high rates to stimulate demand. ____ 7

Banks that shy away from aggressive marketing of IRAs are missing out on profit-making growth opportunities, according to Jerry L. Fitzwater, vice president of Union Bank. ____ 6

The American Bankers Association is considering certification for trust officials as a way to improve the image and prestige of bank trust departments. ____ 8

Artificial intelligence and expert systems are expected to be used for decision making in marketing departments of financial institutions by the early 1990s, writes Michael P. Sullivan in Marketing Management. ____ 4

Quote

A merger would require Congress to make major changes in this country's banking laws.

John T. Morgan, chairman of the National Council of Savings Institutions, on a possible merger of the FDIC and FSLIC. [Page 2]

Top Five Merchant Banks For Credit Cards

Of those responding to survey, ranked by merchant sites (12/86)

	Merchant Sites	Merchants
1. MBank USA, Wilmington, Del.	84,500	38,800
2. Bank of America, San Francisco	NA	44,100
3. Rocky Mountain BankCard System Inc., Denver	NA	40,000
4. Security Pacific National Bank, Los Angeles	41,000	25,000
5. First National Bank of Louisville, Kentucky	37,700	3,600

Source: American Banker

An American Banker Survey

Merchant Units Hold Their Own

By MICHAEL WEINSTEIN

Third of a Series

Despite increasing competition in the merchant side of the credit card business, half of the banks responding to the *American Banker*'s second annual credit card survey said they expect higher profits during 1988.

As more banks focus on the merchant operation as a stand-alone business, they will manage it better, which should improve profitability, bankers said in interviews. Some bankers also think that new technology will enable banks to boost profits in this business.

Twenty-two of 44 banks that track merchant profitability said they expect higher profits in 1988.

Last June, the *American Banker* mailed 110 questionnaires to the nation's biggest financial institutions and top credit card banks. Sixty responses were received by mail or by telephone in the next several months. Fifty of the respondents had merchant operations and served as the base for this part of the survey.

The merchant operation accounts for a small portion of overall credit card profits. Banks make most of their money on the card-issuing side by extending credit to consumers.

About one-half of the banks polled in

Half: Page 16 ▶

Fleet/Norstar to Pool Operations

New England Bureau

BOSTON — Fleet/Norstar Financial Group Inc. will consolidate back-office operations this year to cut costs.

During 1988, Fleet/Norstar will combine 11 operations centers into four and reduce its 11 data processing centers to one, according to J. Terrence Murray, president.

Fleet/Norstar was formed on Jan. 1, when Fleet Financial Group, Providence, R.I., merged with Norstar Bancorp, Albany, N.Y. Each company had about $12 billion in assets.

A spokesman at Fleet/Norstar's Providence office declined to elaborate on Mr. Murray's remarks, which were made at a seminar in Newport Beach, Calif., sponsored by Montgomery Securities, San Francisco.

As bank mergers have swept the country, many banks have been consolidating their back offices. This may reduce operating expenses but often causes layoffs, and it can be technically difficult because of incompatible com-

Fleet: Page 14 ▶

Visa Becomes Soviet Union's 1st Credit Card

Membership of Nonbank Is Unusual Feature of Deal

By YVETTE D. KANTROW

NEW YORK — Visa will become the first international payment card to be issued in the Soviet Union, thanks to an agreement signed with the Soviet state tourist organization.

The deal is unusual because it allows a nonbank organization to join Visa International as a card-issuing member.

Vao Intourist, a government agency responsible for all tourist facilities in the Soviet Union, plans to issue Visa cards both to foreign nationals who live in the Soviet Union and to Soviet citizens who travel abroad.

While Visa, American Express, and MasterCard are all accepted in areas surrounding Soviet tourist attractions, this is the first time payment cards will be available to the country's citizens, according to Fiona Wilkinson, head of marketing services for Visa International's European operations.

In applying for membership in Visa, Vao Intourist took advantage of *perestroika* — the recent relaxation in Soviet economic policy. The country is now permitting organizations that can profit from international dealings to strike agreements with nonsocialist trade partners.

Vao has established a separate division, Intourcreditcard, to manage the Soviet Visa program and help develop the computer systems necessary to process credit card transactions. It is part of the U.S.S.R. state committee for foreign travel, a government unit that owns and operates all hotels and other tourist-related establishments in the Soviet Union, Ms. Wilkinson said.

All cards issued by Vao will be guaranteed by Gosudarstvenny Bank SSSR

Visa: Page 12 ▶

QUOTABLE SUCCESS

"WE ARE EXTREMELY PLEASED WITH EDS' POINT-OF-SALE SERVICE. WE LOOK TO EDS TO ADVANCE THE AUTOMATION OF OUR INDUSTRY."

TONY ARNOLD
EXECUTIVE VICE PRESIDENT
THE ARNOLD COMPANIES

EDS
More than systems... solutions.

TO BEGIN YOUR SUCCESS STORY, CALL EDS TODAY:
1-800-433-4055. IN TEXAS, 214-604-4802.

© EDS 1988

PROTECTION AGAINST CONSUMER BANKRUPTCY LOSSES

A new point scoring model predicts potential bankruptcies with remarkable accuracy. Called DELPHI DIRECT, this on-line credit index provides scoring factors directly on the credit report to help you make sound credit decisions. Write or call Trans Union, 111 W. Jackson Blvd., Chicago, IL 60604, (312) 431-5093.

DELPHI DIRECT™

An exclusive data processing service of TRANS UNION Credit Information Co.

IN THE NEWS

Volcker Joins Investment Firm

NEW YORK — Months of speculation about what Paul A. Volcker's next job would be came to an end Wednesday when Mr. Volcker said he would become chairman of the New York investment banking firm James D. Wolfensohn Inc. And earlier in the day, Princeton University had announced that the former Federal Reserve Board chairman and Princeton alumni had joined its faculty as a part-time professor of international and public affairs.

St Germain Blasts Drug Efforts

WASHINGTON — Fernand J. St Germain, chairman of the House Banking Committee, on Wednesday accused the Reagan administration of failing to conduct a comprehensive war against money laundering and drug trafficking. The Rhode Island Democrat said he was particularly distressed that the Treasury Department, without informing Congress, decided against holding an international conference on money laundering that had been mentioned to the committee in June 1987.

"I am gratified to hear the administration inveigh against money laundering and drug trafficking," Mr. St Germain said in a letter to Treasury Secretary James A. Baker 3d. "Now it is time your deeds matched your words." In a separate letter to Federal Reserve Board Chairman Alan Greenspan, Mr. St Germain wrote that the Fed "did not approach the issue of money laundering quite as seriously as the committee would have hoped and expected."

Treasury Drops Reporting Rule

WASHINGTON — The Treasury Department said it is dropping a proposal that would have forced financial institutions to record and report certain cash transactions of less than $10,000. In a Feb. 29 notice in the *Federal Register*, the Treasury Department said it received an "overwhelming" number of critical comments on the plan to detect money laundering.

Customers buying more than $3,000 worth of cashier's checks, money orders, travelers checks, or bank checks would have been required to file a report with the financial institution indicating whether more than $10,000 of such instruments had been bought in one day. The institution, in turn, would have had to submit reports based on the customer reports. Critics argued the benefits of catching possible fraud did not outweigh the tracking costs.

Hanover Trims London Staff

LONDON — Manufacturers Hanover Corp. said Wednesday that it is cutting 40 jobs in its London operation, or roughly 3.5% of its British work force. According to British press reports, the company has also halted renovations on its new London headquarters, where staff from several sites were expected to be relocated this year.

Fannie Mae Prices Remics

WASHINGTON — The Federal National Mortgage Association on Wednesday priced $425 million in real estate mortgage investment conduit securities backed by mortgages owned by American Savings and Loan Association, Stockton, Calif. American has been ordered by the Federal Home Loan Bank Board to liquidate $2.5 billion in mortgage securities in order to raise cash to pay off short-term liabilities.

— Compiled by Dennis P. O'Connell

Seidman: '87 Was a 'Forgettable Year' for Banks

FDIC Reports Annual Deposit Growth of 2.2%, Despite Surge in Fourth Quarter

By BARBARA A. REHM
Washington Bureau

WASHINGTON — The October stock market crash caused deposits at commercial banks to grow at an annual rate of 12% in the fourth quarter, but that growth was a dismal 2.2% over the full year, the Federal Deposit Insurance Corp. reported Wednesday.

In 1986, bank deposits rose 7.8%.

Asset growth was less than 2%, the smallest annual increase since 1948. But bank assets topped $3 trillion for the first time at yearend.

"Overall, banks had a very forgettable year," FDIC Chairman L. William Seidman told reporters, with income down nearly 80%. But barring an economic downturn, he said, 1988 bank industry profits should return to 1986 levels of about $17.5 billion. In 1987, the industry posted total earnings of $3.7 billion.

Banks' loan volume increased 4% last year. Commercial loans were down 2%, the first such decrease, while real estate and consumer lending rose. In fact, real estate loans exceeded banks' commercial loans by $10 billion last year, the FDIC said, mostly due to an increase in home equity loans.

The aggregate ratio of primary capital to assets stands at 7.69%, the FDIC reported.

The figures, published in the FDIC's *Quarterly Bank Profile*, also show that 17 of the 25 largest U.S. banks lost money in 1987. The FDIC attributed the problems of the big banks to huge reserves they made against Third World loans last year.

The FDIC report also highlighted a rebound by small banks, particularly in the Midwest.

Net operating income for U.S. banks with less than $100 million in assets jumped 51% in 1987. But in the Midwest, the increase was 77.6%. Banks with $100 million to $300 million in assets had a 28.5% increase in net operating income last year.

Recovery in the Farm Belt also has led to slower growth in the FDIC list of problem banks. There are 1,515 banks on the list, down from a high of 1,640 in mid-1987. "The problem bank list has turned around for the first time since 1981," Mr. Seidman said.

Some paring of the list is due to bank failures, but banks also have been removed from the list, said John C.

Seidman: Page 15 ➤

New!

Are the assets on your balance sheet turning into liabilities?

ASSET SALES REPORT
An American Banker Newsletter on Loan Sales and Securitization

July 27, 1987

IN THIS ISSUE

Market Statistics	2
Mattel Toys With Receivables	3
Banks Grumble Over Supermarket Credit	4
First ARMS Deal Tied To Index	5
New Issue Guide	7

Bank of Boston Tests Market

First National Bank of Boston is preparing to sell $100 million in certificates backed by its auto loans, largely to "satisfy its curiosity about securitization." The issue is expected to come to market by Sept. 1.

The bank disclosed the offering in papers filed two weeks ago with the Securities and Exchange Commission, but the deal has gone unnoticed by market observers.

For about a year, bank officials have been speaking to Salomon Brothers Inc. — lead manager of the deal — about possible uses of asset-backed securities. Three months ago, Bank of Boston decided to go ahead with a public offering, said Tom Cahill, the bank's director for consumer finance.

"From what we've seen, securitization may be a better way to fund ourselves than branch deposits," he said. "We feel we should know more about it and we thought our [car loan] portfolio was a good prospect." Cahill expects neither a gain or loss from the issue.

The certificates will be offered via Bank of Boston CARS Grantor Trust 1987-A, set up by a special-purpose subsidiary called Salomon Brothers Receivables Inc.

It marks the first use of the unit, which will act only as a conduit passing along bank receivables to investors. A Salomon official said SBRI is capable of playing a far broader role in future asset-backed offerings.

Like Asset Backed Securities Corp. set up by First Boston Corp., SBRI is designed to issue debt or equity backed by receivables and can reinvest in residual receivables.

The $100 million offering — structured as a sale for both regulatory and tax purposes — represents roughly a third of the bank's auto and light-truck loans.

Cahill said the bank, relatively new in consumer lending, sees its portfolio as equal in quality to that of Marine Midland Banks, which recently completed a $600 million offering of car loans. Marine paid 86 basis points over comparable treasuries, and Cahill hopes to pay no more.

The bank, negotiating with letter-of-credit issuers to guarantee partial payment of interest and principal, is seeking a triple A rating on the certificates.■

Wall Street Firms Grapple For Citi S.D. Credit Card Sale

Citibank South Dakota, the largest U.S. credit card lender, is considering proposals from at least four investment banks that are vying for the right to offer securities backed by its credit card receivables.

The Sioux Falls, S.D.-based bank, with about $10 billion in credit card receivables, represents a potentially huge piece of business for investment bankers.

"They want this business in the worst way," said a source familiar with the situation. The source was referring to Citicorp Investment Bank and First Boston Corp., leading contenders in the competition. Two or three other firms were also said to have offered their services.

However, officials at Citibank S.D. are not yet sold on the securitization concept, according to sources speaking

Continued on Page 6

S&P Ready To Rate C&I Loans

After years of study, Standard & Poor's Corp. says it is ready to assign credit ratings to commercial loan participations.

S&P officials say they expect to publish their first rating of a commercial loan before the end of this year, and possibly within the next couple of months.

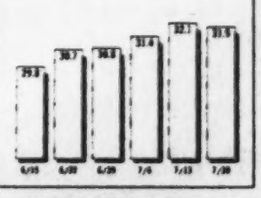
However, the success of S&P's pilot plan hinges on the willingness of a few major New York banks to actually apply for ratings on loans they intend to sell, according to Roy Weinberger, an S&P managing director who has worked on the project.

S&P has discussed the rating proposal with at least Citicorp, Bankers Trust New York Corp. and Chase Manhattan Corp., but so far none has said definitely whether it

Continued on Page 4

LOAN SALES OUTSTANDING

Weekly volume of loan participations (in billions of dollars) sold by 10 of the largest U.S. banks and still held by investors at the close of business each Monday. Complete statistics appear on page 2.



Banks can no longer compete by letting loans lie idle on their balance sheet. Selling and securitizing loans are today's powerful new strategies for freeing up precious capital.

ASSET SALES REPORT, a weekly newsletter from American Banker, will become indispensable to your loan sales program. ASR reports on all types of financial assets sales. Commercial loans. Auto loans. Credit card receivables. Mortgage loans. Third World debt. With exclusive statistics, tips on upcoming deals, and analyses of new developments. With guidance on how successful deals are structured and how to avoid risks.

Subscribe now at a very special charter rate. Fill out the coupon below, or call 1-800-367-0839; in New York call 212-943-6307.

Please enter my one year subscription to **ASSET SALES REPORT** at the special price for *new subscribers only* of more than **30%** off the regular annual price.

☐ **Check enclosed for $510.**

☐ Bill me later for $540.

Charge $510 to my ☐ MasterCard ☐ VISA ☐ American Express

(Add $30 for outside U.S. or Canada Air Service)

Card # _____ Exp. Date _____

Signature _____

Name _____

Title _____

Institution _____

Address _____

City/State/Zip _____

Send to:
Asset Sales Report
P.O. Box 30240
Bethesda, Md. 20814

Telephone:
1-800-367-0839
In New York: 212-943-6307

MARKETING MANAGEMENT

Expert Marketers Put Expert Systems to Use

By MICHAEL P. SULLIVAN

ARTIFICIAL INTELLIGENCE and expert systems are becoming part of the technological menu of the largest financial services companies. While those institutions are finding the greatest need in diagnosis and production decisions, technology experts see the marketing function as an area in which most decision-making will have expert and advisory diagnostic systems as early as 1990.

Marketing in financial services has been driving in recent years toward use of more technology in the planning and execution of marketing plans. AI and expert systems tools will provide marketing management with greater confidence in decision-making and a growing feeling that technology will help the company increase the odds in favor of success.

For example, with the advent of publicly available computerized data bases, the retail marketing executive can purchase demographic and psychographic information on almost 90% of all the households in the United States. Financial services marketers are prime prospects for information and data base suppliers. Witness the amount of advertising in financial service publications, and the exhibitors at financial marketing conferences.

Sullivan Says:

The survey suggested the use of artificial intelligence and expert systems technology was not so much a coordinated strategic effort but more of a guerrilla movement.

One cooperative venture between a major national business information supplier and a media-oriented firm provides names, addresses, and telephone numbers for all U.S. households with a telephone or a registered automobile. With this plethora of information available, expert systems programs can be used to optimize direct response marketing strategies.

By no means have financial services executives completely bought into the technology. A 1985 Cooper & Lybrand's study, conducted by Lou Harris, asked large companies about the future of technology in the financial services industry. Findings concluded that only one in five of the financial services institutions studied had applied expert systems and artificial intelligence on a pilot or full-scale basis.

However, over 50% of those surveyed have already applied expert systems or will likely do so by 1990. As a result of the optimism over the technology, the company estimates that the market for AI technology will surpass $4 billion in 1990, an event they equate with the microcomputer boom of the 1970s.

The survey concluded that few financial services executives are familiar with the technology. Most doubt it will revolutionize their business. However, many feel they cannot afford "not to get involved."

The biggest financial services advocates of artificial intelligence and expert systems are those in the insurance sector, particularly property-casualty and multiline insurers.

Mutual Life Offers Clues

Many of the larger companies have developed systems in underwriting and claims settlements. The Feb. 10 edition of the *American Banker* reported that the Mutual Life Insurance Company of New York is the first to put artificial intelligence onto a mainframe computer system for underwriting and issuing policies. The program, called Clues, automates 5,000 steps in the underwriting process.

Software providers like Syntelligence Inc., Sunnyvale, Calif., have developed programs such as its Underwriting Advisor for insurance companies and Lending Advisor for commercial banks lending to the middle market.

A later survey sheds more light on the use of artificial intelligence and expert systems. A mid-1987 study by the Bank Administration Institute of the 100 largest banks, holding companies, and savings and loans about use of artificial intelligence and expert systems shows an increasing interest in the technology. Forty-five percent said they were exploring, developing, or using artificial intelligence. Twenty-seven percent said their AI systems had reached the utilization stage.

The Bank Administration Institute survey suggested the use of artificial intelligence and expert systems technology was not so much a coordinated strategic effort but more of a guerrilla movement, used occasionally as an alternative to solving specific problems.

This underlies one of the early lessons about this technology: It should not be forced on the problems, but rather the proper application for the use of the technology should be found.

The strategic use of technology is best typified by the work that Citicorp is doing. It is reportedly working with expert systems to reduce customer service representative transaction time while increasing cross selling and improving service. Other expert systems include platform officer automation and improving information support services.

American Express is using expert systems to identify abnormal purchase attempts and reduce card fraud. John Hancock is using expert systems to help its agents identify the appropriate financial products to meet a client's specific needs. The marketing of personal financial planning, which at this point has not proven commercially feasible, may get its greatest impetus from artificial intelligence and expert systems.

If the technology is already showing these capabilities, then it may have a major impact on the marketing of financial services by the early 1990s. Marketing executives will need to become aware of the opportunity and conversant in the technology.

Understanding artificial intelligence and expert systems begins with a definition of terms. Former McKinsey executive David Bendel Hertz, in his recently published book, "The Expert Executive," (John Wiley & Sons) provides the following definitions for artificial intelligence and expert systems:

- "Artificial intelligence" is a computer-science-related study or discipline that is built around computer-based simulation of intelligent behavior. The discipline includes computer science, programming and technology, psychology, cognitive science, neuroscience, brain science, and logic as well as some philosophy.
- "Expert systems" are defined as computer programs that provide advice and diagnoses for advisory programs ordinarily dealt with by human experts. Building such expert systems has been made possible by the results of artificial intelligence research and computer science.

Understanding expert systems also means understanding its limitations. In order to have expert systems, Mr. Hertz concludes, expert knowledge must exist relative to the problem to be solved. The system is only as good as the factual and procedural knowledge it is given. The problems used in testing the expert system should independent of the ones used in developing the system. Users must be involved in the development, especially the guidelines. The system must be maintained.

As part of a marketer's education in artificial intelligence and expert systems, he or she should attend a seminar on the subject.

Artificial intelligence and expert systems offer the financial services industry marketer a new technology that will certainly differentiate the company from its competition. It depends on how soon one gets up on the technology. ■

Mr. Sullivan is a communications consultant based in Charlotte, N.C.

American Banker
The Daily Financial Services Newspaper
Established 1836
One State Street Plaza, New York, N.Y. 10004
(212) 943-6700

Editor: William E. Zimmerman
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson

NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Ill 60604; (312) 663-6380
West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953
San Francisco: Chief, Michael A. Robinson, 450 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705
Southwest: Chief, David LaGesse, Suite 1600, 8080 North Central Expressway, Dallas, TX 75206; (214) 891-8878
New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848
London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (01) 439-3066

Feature Editions Editor: Patricia Stundza
Chief Statistician: L. Michael Cacace
Senior Editor, Copy Desk: Aileen L. Kyte
Art Director: Pamela Budz
Contributing Editor: Paul S. Nadler

President: Richard H. Tierney
Executive Vice Presidents:
Publishing - Edmund C. Burke
Information Products - Robert S. November
Administration - Con A. Rusling
Vice Presidents:
Production Services - Neil Fitzgerald
Advertising - Edward C. Frey
Circulation - James E. McSurely

Advertising:
New York: (212) 943-4259
Chicago: (312) 663-6390
San Francisco: (415) 421-7950
Los Angeles: (213) 382-6346
Charlotte: (704) 522-7181
Classified: (800) 221-1910
International: (212) 943-4250
Telex: 421768 ABKR

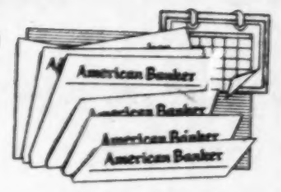
Subscription Rates: U.S. $525.00, Canada $775.00.
Canada Air Mail and Foreign $1090.00. Single copy $3.45
©1988 by American Banker • Bond Buyer, a division of International Thomson Publishing Corporation.
All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in U.S. Patent and Trademark Office.
Published daily except Saturday, Sunday and holidays.
Second Class Postage Paid at New York, N.Y. and at additional mailing offices in U.S.A. (ISSN No. 0002- 7561)
Postmaster: Send address changes to American Banker, 1 State Street Plaza, New York, N.Y. 10004

For subscription orders and inquiries call:
Outside New York - (800) 221-1809
In New York - (212) 943-9589 Collect.

Wires: WU Telex 882385 Answer Back: AmerBank NYK. WUI 62594 AMERBANKER
Cable Address: AMERBANKER New York.
Telecopier: 1-212-943-2222

FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

- A U.S. District Court jury awarded a former Chicago auto dealer $1.2 million in his suit against General Motors Corp. The dealer, Fred Emich, charged that the company revoked his franchise because he refused to use its financing subsidiary, the General Motors Acceptance Corp. The company maintained that it revoked the dealership because of bad business practices. General Motors charged that Mr. Emich kept unreliable books, was unable to meet competition, failed to sell his quota of cars, and used "his dealership as a front for his own finance company."
- Gordon S. Rentschler, chairman of National City Bank of New York, died of a heart attack in Havana while on vacation. He was 62.
- An Iowa banker, Daniel J. Monen, was quoted in the Congressional Record in opposition to universal military training. He said, "Conscription of youth in peacetime will, through interruption of study in science and engineering and democratic processes, do more damage than good."

20 Years Ago

- The Supreme Court sent the antitrust suit against Third National Bank, Nashville, back to a lower court, with instructions to apply tough new standards under the Bank Merger Act of 1966.
- President Johnson proposed programs to provide insurance against riot damage in the nation's cities. The administration cited the "major problem" of limited availability of coverage for fire, vandalism, malicious mischief, burglary, and theft in inner cities.
- Rep. Wilbur Mills, D-Ark., warned that a substantial hike in military spending "could force Congress to support" an income tax increase. He said there would be pressure to reduce domestic spending if taxes were raised.

10 Years Ago

- Officials of Textron Inc. told the Senate Banking Committee that G. William Miller, who was the company's chairman and a nominee for the chairmanship of the Federal Reserve Board, did not know that a payment the company made to a representative of an Iranian sales company might have benefited the commander in chief of the Imperial Iranian Air Force.

5 Years Ago

- In the first such move by the Reagan administration, the Justice Department filed an antitrust lawsuit to block the merger of First State Bank of Wise, Va., into Virginia National Bank, Norfolk.
- A coalition of banking and housing industry groups — including the American Bankers Association — urged Congress and the President to stop bickering and start slashing the size of the projected budget deficit. In a full-page advertisement in The Washington Post, the coalition warned that failure to cut the deficit raised the "specter of an overwhelming volume of deficit financing which haunts housing and financial markets and poses the threat of economic and financial conditions not seen since the 1930s."
- The National Credit Union Administration proposed allowing credit unions to set for themselves all terms for savings accounts, including interest rates.

1 Year Ago

- The Securities Industry Association asked the Supreme Court to review a decision allowing Bankers Trust Co. to place commercial paper.
- Texas thrifts, buffeted by the state's decline in real estate values, reported total losses of nearly $3.3 billion for 1986 and ended the year with nonperforming loans at nearly 17% of assets, according to the Federal Home Loan Bank Board.
- The financing subsidiary of General Motors Corp. announced it would begin a direct-mail campaign offering $25 billion in preapproved credit to two million preferred customers nationwide. The move was the latest in a series of actions by GMAC Financial Services to take a larger piece of the auto-financing pie.

— Domenica Trevor

DAILY FINANCIALS
Wednesday March 2, 1988

Money Market

Federal funds range 6⁹/₁₆%-6⅝%
Prime rate (2/4/88) 8.50%
Discount rate FRB of New York (9/4/87) 6.00%

Call loans on securities, to brokers on stock exchange collateral 8.00%

Bankers acceptances offering rate, discount (3/2)
30 days: 6.42 60 days: 6.42 90 days: 6.42
120 days: 6.42 180 days: 6.42

Certificates of deposit, highest offering rate, at New York City banks (3/2)
14 days: 6.30 30 days: 6.45 60 days: 6.45
90 days: 6.50 120 days: 6.50 150 days: 6.55
180 days: 6.60 270 days: 6.75 360 days: 6.85

Commercial paper, dealer Aaa, discount (3/2)
30 days: 6.35 60 days: 6.35 90 days: 6.35

Commercial paper, directly placed, discount (3/2)
5-14 days: N.A.-N.A. 15-29 days: N.A.-N.A.
30-59 days: N.A.-N.A. 60-89 days: N.A.-N.A.
90-179 days: N.A.-N.A. 180-270 days: N.A.-N.A.

Treasury-bill rates, secondary market, bid (3/2)
90 days: 5.59 180 days: 5.83 1 year: 6.15

Eurodollar deposits, London bid (3/2)
Overnight: 6½ 7 days: 6½ 1 month: 6⅝
3 mos.: 6¹¹/₁₆ 6 mos.: 6¾ 1 year: 7¹/₁₆
NIBOR: 6⅞¾ **LIBOR:** 6⅞

Futures Markets

The Bond Buyer Municipal Bond Index

	3/2/88	3/1/88	2/24/88
Index	97.24	97.24	97.28
Yield to Par Call	7.96	7.96	7.96
Yield to Maturity	7.85	7.84	7.84

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade as the basis for long-term municipal bond futures contracts. It is an average obtained when the price of 40 select term bonds is divided by the amount at which each bond would be priced to yield 8%. The Index is computed daily and quoted in points and 32nds.

3-Month Treasury-Bill Futures (IMM)*

Delivery	High	Low	Settle	Chg(a)	Yld(b)
Mar. '88	94.37	94.34	94.35	+ 2	5.65
June '88	94.40	94.35	94.37	+ 2	5.63
Sept. '88	94.18	94.14	94.17	+ 2	5.83
Dec. '88	93.90	93.87	93.89	+ 2	6.11
Mar. '89	93.65	93.60	93.64	+ 2	6.36
Jun. '89	93.44	93.41	93.43	+ 2	6.57

As of the previous day's close; Total no. of contracts traded: 9,094 total open interest: 24,392 and change in open interest: +1239

Footnotes to Futures Tables:
*For 3-month Treasury bills with a face value at maturity of $1 million. a–Change from previous day's settlement price in basis points. b–100.00 minus settlement price. IMM–Traded on the International Monetary Market, a division of the Chicago Mercantile Exchange. r–New record high in open interest.

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
Mar. 2:	265.6	1988:	261.3	227.7	265.6
Mar. 1:	262.7	1987:	401.7	212.0	234.6
Feb. 29:	257.6	1986:	388.7	331.2	331.3
Feb. 26:	256.9	1985:	344.2	242.7	344.2
Feb. 25:	261.3	1984:	269.6	178.4	246.3

* Based on midday prices.

AMERICAN BANKER CAN BE READ DAILY VIA ONLINE SERVICES

Get early morning access to today's American Banker news stories, commentaries and tables through several electronic services. Most services update the database by 12:01 a.m. on the day of publication. Included in the electronic version are complete speeches presented by industry luminaries, banking regulations, and other documents not published in the paper.

Two electronic versions of American Banker are available:

AMERICAN BANKER NEWS — Easy-to-use, containing the major stories and columns appearing in today's paper; available through DIALOG Information Services (800-334-2564) as file BANKNEWS.

AMERICAN BANKER FULL TEXT — The complete content of every day's paper back to 1981; updated daily. Available through Data-Star (215-687-6777); DIALOG Information Services (800-334-2564); Finsbury Data Services (212-493-7128); NewsNet (800-345-1301); and NEXIS (800-227-4908).

Selected stories may be indexed and summarized in FINIS, a database produced by the Bank Marketing Association (800-433-9013).

For further information on accessing American Banker on line, please call DATABASE SERVICES at (212) 943-6303.

First Republic's Lead Bank Sees Deposits Drop

By DAVID LaGESSE
Southwest Bureau

DALLAS — Deposits fell about 8% at First RepublicBank Dallas, the lead bank of First RepublicBank Corp. during the third week of February, a drop the company attributed to rumors of a pending bailout.

First Republic's denials of those rumors, and efforts to reassure depositors, subsequently slowed the deposit outflow, said Gerald W. Fronterhouse, the company's chairman.

"By the middle of last week, the sources of funds for the Dallas bank and for the corporation as a whole appeared to be stabilizing," he said in a prepared statement.

For the week ended Feb. 24, First Republic lost about $600 million in deposits, its daily average falling to $6.8 billion.

Mr. Fronterhouse said the deposit decline "reflects mainly the impact of earlier false rumors and extensive adverse publicity." In mid-February, the bank was the subject of numerous rumors, which picked up momentum after *The Wall Street Journal* reported that federal regulators were closely watching First Republic.

Some institutional investors had already withdrawn their uninsured deposits after a key rating of First Republic's creditworthiness — prepared by Keefe Bruyette & Woods Inc. — fell to its lowest level last month.

A number of banks also withdrew their check-clearing business from First Republic, fearing losses or service disruptions if the bailout rumors proved true.

Meanwhile, the ratings of two other Texas banks fell to the same level at the same time as First Republic's, though without the accompanying rumors and publicity. Both Texas American Bancshares Inc., Fort Worth, and National Bancshares Corp., San Antonio, reported stable or even rising deposits during the same period in which First Republic had an outflow.

"We get most of our deposits through our retail branches, and they just aren't likely to be affected by the ratings," said Gene Jones, treasurer of National Bancshares.

According to figures released by the Federal Reserve Bank of Dallas, a number of Dallas and Fort Worth banks reported a rise in deposits, apparently because of the reported problems at First Republic. For example, deposits at the Fort Worth-based lead bank of Texas American increased slightly, from $2.042 billion to $2.072 billion during the week ended Feb. 24.

That rise reflected a pickup in two categories of deposits that a problem bank is most likely to lose: certificates for more than the limit on federal insurance and foreign deposits. ■

Strategic Dates
Sept. 1, 1990

STRICT CHECK RULES: Starting today, banks and thrifts must abide by strict check-hold rules, including one that breaks up a consumer's deposit according to availability. Under the law, institutions must make the first $100 of any deposit available for cash withdrawal at the opening of business the day following deposit; the next $400 of the deposit must be available no later than 5 p.m. the next day, and the balance has to be ready for withdrawal at the start of the third day.

Preliminary 1987 Industry Data

FDIC's Report on Commercial Banking Performance

		Asset Size Distribution					
	All Banks	Less than $100 mil.	$100-$300 million	$300-$1,000 million	$1-5 billion	Greater than $5 billion	Ten largest banks
Number of banks reporting	13,654	10,891	1,876	535	268	74	10
Number of unprofitable banks	2,366	2,070	174	62	33	18	9
Number of failed/assisted banks	201	186	12	3	0	0	0
Performance ratios							
Yield on earning assets	9.53%	9.65%	9.59%	9.66%	9.62%	9.55%	9.99%
Cost of funding earning assets	5.64	5.22	5.17	5.23	5.34	5.73	6.82
Net interest margin	3.89	4.43	4.41	4.43	4.28	3.82	3.17
Net nonint. exp./earning assets	2.16	2.86	2.66	2.63	2.37	1.98	1.51
Net operating income to assets	0.07	0.53	0.75	0.62	0.53	-0.05	-0.89
Return on assets	0.13	0.58	0.81	0.67	0.57	-0.00	-0.81
Return on equity	2.56	6.70	10.61	9.59	8.77	-0.01	-18.29
Net charge-offs to loans, leases	0.89	1.14	0.81	0.95	0.92	1.04	0.67
Growth Rates (year-to-year)							
Net charge-offs	-3.9%	-21.2%	-10.8%	16.1%	24.4%	40.6%	-26.9%
Interest income	2.9	-1.2	3.3	6.0	11.3	11.6	3.8
Interest expense	1.4	-5.7	-1.3	1.6	7.4	11.2	6.3
Net interest income	5.2	4.9	9.3	11.6	16.6	12.1	-1.1
Loan loss expense	67.5	-23.8	-16.1	5.3	35.7	141.5	173.8
Noninterest income	15.6	10.5	11.5	13.0	22.9	18.7	23.6
Noninterest expense	7.4	6.2	9.0	10.7	15.5	15.9	9.1
Net operating income	-84.5	51.0	28.5	13.6	-3.7	N/M	N/M
Net income	-78.8	12.6	11.3	-0.9	-12.1	N/M	N/M

Source: Federal Deposit Insurance Corp.

Seidman: '87 Was a 'Forgettable Year' for Banks

Continued from Page 3

Quinn, a financial economist in the FDIC's research and planning department. "That's something we haven't seen in while," he said. Mr. Quinn pointed out that the problem bank list grew in 1986 despite a record number of bank failures.

Mr. Seidman said banks in the Southwest will continue to struggle this year, but he said the regional economy is not expected to worsen. More than a third of the banks in the Southwest are unprofitable, with return on equity at a negative 11.81%.

Industry consolidation continued, according to FDIC figures. There are now 13,700 commercial banks, the lowest number since 1971. The number of banks peaked in 1984 at 14,500.

The FDIC itself reported 1.1 cents of deposit insurance to cover every dollar of insured deposits, an all-time low. ■

Digital Equipment to Place VAX in AmeriTrust Units

CLEVELAND — Digital Equipment Corp. will install a VAX minicomputer to drive the present Ericsson terminals in each AmeriTrust branch in Ohio and Indiana under a $10 million joint program.

The Cleveland-based bank has 210 branches in the two states. Installation of the system will start late in 1989 and run over five years.

The VAX equipment will replace the Ericsson minicomputers that now drive some 800 teller stations in the branches and will connect to an IBM host computer. The Ericsson teller workstations will be retained.

AmeriTrust said the VAX will permit others besides tellers, such as customer service officers, to access account information. ■

MONDAY in American Banker

NEWS MONDAY

AMERICAN BANKER WEEKLY REVIEW

A four-page section reviewing some of the top stories of the week and focusing on developments in Washington. The features in this section include:

•**Washington Monday** - A two-page section devoted to up-to-the-minute news from the regulatory and congressional fronts. Includes a calendar of upcoming events, brief profiles of newsmakers, and a weekly feature article on a major issue or important player.

•**Washington Briefing** - A column that offers perspective on new regulatory or legislative developments in the nation's capital.

•**People** - Profiles of interesting and/or provocative people in financial services.

For information on advertising in this or any other feature section, call Ned Frey at (212) 943-5280

BACKPAGE

An American Banker Survey

Half of Respondents Expect Merchant Units to Profit

→ Continued from Page 1

the *American Banker* survey said merchant profits account for less than 10% of overall credit card profits.

Last year, Keefe, Bruyette & Woods Inc. estimated that credit card operations at the biggest issuers were yielding a pretax profit of 4.75% on assets in the first half of the year, making credit cards among the most profitable of bank products.

For a bank, the merchant business in a credit card operation is basically providing the retailer access to the Visa and MasterCard networks. This means that the bank, or a third-party acting for the bank, authorizes credit card transactions for the merchant, credits the merchant's bank account when it deposits credit card receipts, and submits these receipts to Visa and MasterCard for settlement.

For these services, the bank charges the merchant a so-called discount fee on each credit card transaction. This fee is negotiated separately with each retailer and generally ranges from 1.5% to 4% of the transaction amount.

Make Money or Get Out

"When you make [the merchant business] a stand-alone product, you either make money or you get out of it," said Stephen R. Hooper, assistant vice president at Mellon Bank in Pittsburgh. "We've got our expenses more under control."

Manufacturers Hanover Trust Co., New York, got out of the merchant processing business when it sold its operations to First Financial Management Corp., Atlanta, in January. The bank said it wanted to concentrate on its "much higher return, nationwide consumer cardholder business," said Manufacturers vice president John Meyers.

Also in January, Chemical Bank sold its Chicago-based merchant credit card business to Electro Data of Denver. Chemical announced in November that it planned to discontinue the unprofitable Chicago business as part of a streamlining effort. Its New York-based merchant operation was not affected by the sale.

"People are paying a little more attention to it," said another banker, who requested anonymity. "We in this whole group could do a lot better if we'd just run it for profit."

The *American Banker* survey found that a large majority of banks — 44 of 50 with merchant operations — track the profitability of their merchant operations.

But George Norris, senior vice president at Rocky Mountain Bank Card System Inc., Denver, said: "It would amaze me if it's that high."

And bankers think gauging profits is easier said than done. "I think the allocation of merchant and cardholder revenues is murky at most banks," said Cynthia A. Graham, senior vice president at Barnett Banks Inc., Jacksonville, Fla.

Some bankers expect help in another area. "I'd say technology is going to give us the edge," said Dennis R. Babcock, vice president at Shawmut Bank in Boston. He was referring to so-called data capture programs, which use an electronic terminal at the merchant location to handle the credit card transactions. This is cheaper than the old-fashioned method, which requires a phone call by the store clerk to check if the card is valid and a deposit of paper sales slips at the merchant's bank to credit the sale.

> Keefe, Bruyette & Woods estimated that credit card operations at the biggest issuers were yielding a pretax profit of 4.75% on assets, making credit cards among the most profitable products.

Data capture also saves banks money because use of that technology entitles the merchant bank to pay a lower "interchange fee" to the card-issuing bank. For every bank card transaction, the merchant bank pays an interchange fee to the bank that issued the card.

Since the interchange fee is built into the discount fee that the merchant bank charges the retailer, a lower interchange fee means extra money for the bank.

Some See Little Benefit

But some bankers see little financial benefit from data capture.

The biggest merchants have a keen understanding of bank card operations and know that data capture cuts costs for banks. These merchants usually force banks to give up most of the savings from lower interchange fees in the form of a lower discount rate.

"The major merchants know the card business better than the banks do," Mr. Babcock said.

On the other hand, in many cases banks have been more successful in keeping for themselves the savings from data capture when dealing with smaller, less sophisticated merchants.

"The regional banks have been able to price the product in the middle range and make a pretty good profit because they can render a really good service," said Steve Glaser, a vice president at California First Bank, San Diego.

Rocky Mountain Bank Card offers data capture, but Mr. Norris said the technology's potential gains through lower costs depend on the merchant.

"We've tended to pass on our savings to the merchant," Mr. Norris said.

Mr. Glaser said the biggest retailers choose credit card service based strictly on the cheapest discount rate, but medium-size merchants will pay a premium for a superior service.

But Mr. Norris was skeptical about future profitability.

"Pricing is getting more competitive," he said. "I feel we're getting lots of pressure."

Mr. Norris said banks are hiring aggressive nonbank marketing companies to sign up merchants for the banks' credit card services. These third-party marketers are penetrating the ranks of regional merchants, Mr. Norris said.

"There are third-party marketers coming into the area trying to undercut you," he said. ■

Merchant Profitability

Do you track the profitability of the merchant side of your credit card business?

Yes	44
No	4
Unsure	2

Base: 50 respondents with merchant operations.

Would you say the profitability of this business is higher, lower, or unchanged in the past year or so?

Higher	18
Lower	12
Unchanged	13
Unsure	1

Do you expect the profitability of this business to be higher, lower, or unchanged during the next year?

Higher	22
Lower	7
Unchanged	12
Unsure	3

Estimate the percentage of your overall credit card profits that can be attributed to this business.

Loss	1
0 - 4	14
5 - 9	7
10 - 14	7
15 - 19	5
20 - 24	5
25 - 29	1
30 - 34	1
35 - 39	0
40 - 44	0
45 - 49	0
50 +	1

Base: 44 respondents who track merchant profitability

Source: American Banker

Top Merchant Banks For Credit Cards

Of those responding to survey, ranked by merchant sites (12/86)

	Merchant Sites	Merchants
1. MBank USA, Wilmington, Del.	84,500	38,800
2. Bank of America, San Francisco	NA	44,100
3. Rocky Mountain BankCard System, Denver	NA	40,000
4. Security Pacific National Bank, Los Angeles	41,000	25,000
5. First National Bank of Louisville, Kentucky	37,700	3,600
6. Chemical Bank, New York	37,000	32,500
7. First National Bank of Atlanta	26,000	10,400
8. NBD Bancorp, Detroit	21,200	19,700
9. Sovran Bank, Richmond, Va.	20,300	16,800
10. Marine Midland Bank, Buffalo	18,000	15,000
11. Barnett Credit Services Inc., Jacksonville, Fla.	17,600	NA
12. Manufacturers Hanover Trust Co., New York	NA	15,800[1]
13. First Bank of South Dakota NA, Sioux Falls	15,000	9,200
14. First Interstate Bank, Los Angeles	14,100	12,700
15. United Virginia Bank, Richmond	11,800	9,700
16. Rainier National Bank, Seattle	11,700	NA
17. First Tennessee Bank, Memphis	10,100	8,000
18. AmSouth Bank NA, Birmingham, Ala.	9,800	9,000
19. Wachovia Bank and Trust Co.	9,300	6,600
20. Fleet National Bank, Providence, R.I.	9,100	8,100
21. United Missouri Bank of Kansas City	8,700	1,000
22. NCNB, Greensboro, N.C.	8,700	8,300
23. Shawmut Bank, Boston	NA	7,400
24. Meridian Bancorp Inc., Reading, Pa.	7,800	NA
25. First Fidelity Bank NA, Newark, N.J.	7,600	6,600
26. First Maryland Bancorp, Millsboro, Del.	7,400	5,600
27. California First Bank, San Diego	7,400	7,200
28. Signet Bank, Richmond, Va.	7,000	4,500
29. Huntington National Bank, Columbus, Ohio	6,700	6,400
30. Maryland Bank NA, Newark, Del.	6,500	5,500
31. Midlantic National Bank/North	6,200	5,900
32. South Carolina National Bank,	5,800	4,500
33. Bank of New England, Boston	5,200	5,300
34. Connecticut National Bank, Hartford	NA	5,000
35. Citizens and Southern National Bank, Atlanta	4,800	4,500
36. Society National Bank, Cleveland	4,300	2,200
37. National City Bank, Cleveland	4,200	2,900
38. Sanwa Bank of California, Los Angeles	NA	3,200
39. Sumitomo Bank of California, San Francisco	NA	2,200
40. Sovran Bank/Delaware, Dover	2,600	2,000
41. Equibank (Delaware) NA, Wilmington	2,600	2,600
42. State Street Bank and Trust Co., Boston	2,500	1,300
43. First RepublicBank Dallas	2,100	900
44. First Pennsylvania Bank NA, Philadelphia	1,800	1,000
45. First National Bank of Cincinnati	1,700	1,500
46. Bank One, Columbus	NA	1,200
47. Bank of Hawaii, Honolulu	500	NA

[1]Manufacturers Hanover has since sold its merchant business to First Financial Management Corp., Atlanta.

Source: American Banker

Dear Reader, How Are We Doing?

The *American Banker* wants to make sure our credit card survey meets your information needs. So would you spend a moment to give us some feedback? Please clip out this questionnaire and return to: William Zimmerman, Editor, American Banker, One State Street Plaza, New York, N.Y. 10004 (212) 943-5712.

(1.) How would you **change** the survey to make it more useful? What would you add?

_____

_____

_____

(2.) What do you like **best** about the survey?

_____

_____

_____

Name (optional) _____

Title _____

Company _____

Address _____

_____

Phone _____